



KEYSTONE ENERGY, LLC.

September 25, 2006

Schnader Attorneys At Law
Fifth Avenue Place
120 Fifth Avenue, Suite 2700
Pittsburgh, PA 15222-3001

Attention: Mr. Robert J. Williams

Subject: Victory Energy Operations

Dear Mr. Williams:

In reviewing the paperwork furnished by Victory Energy, we find that it is not possible to accurately determine the profitability of the projects based on the information supplied.

To assist us in this determination, we request that the following be furnished:

1. The original dated sales estimate budget showing the breakdown of costs for all of the various components to complete the project including the direct labor costs and the specific overheads applied.
2. Copies of the final purchase order from the customer showing the overall pricing.
3. Breakdown of actual shop manhours by operation.

In addition to the above general documents, the following items are not included for specific contracts:

VSO Job #282 - No shop labor hour timesheets
VSO Job #313 - This job is not included in any of the reports on Index
(Pages VEO14956 & VEO14957)

Also there appears to be inconsistencies between various reports, especially with regard to shop manhours and direct labor costs. For example, for VSO Job #344, the Job Transaction Detail Report (Page 14690) shows shop labor cost code 000-222 is \$42,840.72; the Statement of Gross Profits (Page 14958) shows direct labor of \$40,203.86 and the Direct Labor Calculation Report (Pages 14963 & 14964) shows direct labor of \$35,823.16. The direct labor timesheets add up to 1,676.73 manhours while the Direct Labor Calculation Report indicate total shop hours of 2,979.9.

(continued)





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The manufacturing overhead applied on the Statement of Gross Profits Report does not appear to agree with the manufacturing overhead calculations submitted. There is also a question as to the basis of "other allocated costs" shown on the Statement of Gross Profits (Page VEO14958).

We will need the above documentation and clarifications in order to proceed with any profitability calculations.

Regards,

A handwritten signature in cursive script that reads "W. F. Liebel".

W. F. Liebel
Consultant

